

Testimony of Rodney J. MacAlister
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before
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Subcommittee on Africa, Global Human Rights
And International Operations
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“Removing Obstacles for African Entrepreneurs”

Mr. Chairman and distinguished members of the Committee, it is my pleasure and privilege to appear before you today to share what the United States African Development Foundation (USADF) is doing to remove obstacles for African entrepreneurs.

The Foundation was created in 1980 to take a different and then-untried approach to fighting poverty in Africa. The concept – then as now – is to enable individuals and groups to get out of poverty by putting their own ideas to work, not someone else's. Our methods have evolved over time, with experience, but one of the main pillars of our work throughout has been to remove barriers and promote the success of our customers: thousands of Africans who have no lack of innate entrepreneurial instinct but simply lack the means to get going and stay on the path to success.

In describing our work, I will address four dimensions:

- 1) USADF has a unique model for growing businesses, which is showing impressive results.
- 2) The Foundation is stretching appropriated funds with leveraged contributions.
- 3) Our programs are in high demand across the continent.
- 4) After 25 years of operations, and given the distinct and effective contribution that the Foundation makes to the U.S. foreign assistance community, USADF has the potential to do much more.

USADF is unique. The United States African Development Foundation's core business is growing African-owned small businesses and demonstrating that African entrepreneurs and farmers can compete in the global market place. Over the years, it has made more than 1500 investments to promote economic and social development for the poor in Africa.

The way we go about doing this is distinct from other agencies:

- First, USADF works directly with its clients. Other than employing African host government funds, we bypass other governments and do not use international consultants or intermediaries.

- Second, the Foundation helps its clients think commercially. We show them how to diagnose their constraints, assess market opportunities, conduct rigorous financial analyses on investment options, and develop business plans to support commercially viable activities that generate income for owners, employees, and suppliers.
- Third, USADF provides a comprehensive package of direct investments in African small and medium-scale enterprises, agri-businesses, and smallholder farming operations. This integrated investment package combines technical assistance and training to strengthen technical, managerial and marketing capacities, with working capital and access to new technology. The Foundation assists its clients to: diversify their product lines; enhance the quantity and quality of production to meet market standards and demand; increase value through processing; and access regional and global markets.
- Fourth, while we were an early pioneer in microfinance, nowadays USADF-supported enterprises receive between \$50,000 and US\$250,000 in investment financing, as this is the least-served level of capital need. The investment is interest-free, but the customers commit to contribute up to 100% of the investment amount – based on business projections and actual profitability – to a local development trust. This unique feature of USADF’s enterprise development model ensures companies have the “patient” capital they need to grow, and at the same time reinforces commercial discipline so that small enterprises can access future capital requirements from banks and other commercial sources. It also fosters a culture of social responsibility and it creates a pool of development funds for reinvestment in other businesses and community initiatives.
- Fifth, because our business development model is unique and effective, African governments are making cash contributions to match, one-for-one, appropriated funds. I know of no other agency that is so successfully and extensively leveraging American taxpayer’s funds. This critical aspect of our program is detailed below.

USADF works – it is producing results. The Foundation’s investments in small African-owned businesses are generating economic growth. It is helping small farmers increase income by diversifying their production into high value cash crops. USADF is demonstrating that small African businesses and farmers can compete in the international market place; it is helping them meet the quality and quantity demands of the global marketplace and creating linkages with international buyers. The Government of Ghana has made USADF’s model of growing small businesses one of the major components of its national economic development strategy. Last year, USADF’s investments across Africa helped create more than 110,000 jobs for poor Africans and generated \$70 million in gross revenues for enterprises and almost \$35 million in export sales. (A chart showing the growth of gross revenue and export sales among USADF-supported enterprises is attached). The Foundation’s community enterprise investments are supporting grassroots solutions to local problems and empowering communities to take control of their own development. Thus, USADF is advancing the objectives of AGOA and furthering U.S. objectives of building a foundation for peace and prosperity in Africa.

Four ADF-funded projects demonstrate the success and impact of our investments in growing small, African-owned businesses and launching some of them into the global marketplace.

- Bosbel Vegetable Oil Mills Ltd., located in Tamale, northern Ghana, specializes in the production of vegetable and groundnut oils for the Ghanaian and export markets. Aging equipment and limited resources were hampering Bosbel's ability to meet increased demand both from the local and export markets. In FY 2004, Bosbel Vegetable Oils was approved for the equivalent of US\$245,117 in funding support, enabling them to expand production. Since ADF's involvement commenced, Bosbel Vegetable Oils has experienced revenue growth of US\$306,977, of which over 50% is derived from exports.
- The Tanzania Mtibwa Sugar project has demonstrated an impressive capacity to scale up its production to meet the demands of the export market through its support for the production of small-scale sugarcane "outgrowers." First funded during FY 2002, Mtibwa Sugar has increased its gross export revenues by 423 percent over the past three years, from US\$1.188 million during FY 2002 to US\$5.034 million in FY 2005.
- Ruembe Outgrowers Association, another small-scale sugarcane producer in Tanzania, has already exceeded most of the targets established when it was approved for US\$228,740 in ADF funding in FY 2004. Yields per hectare are up 30% and cumulative export sales stand at US\$4.7 million. The number of participating cane farmers has increased by 50 percent since project inception and the income of the 1440 growers has almost doubled as a consequence of ADF's investment. Ruembe Outgrowers have become a trusted supplier of sugarcane to the Kilombero Sugar Company.
- Kelvin Shaun Investments Ltd., Uganda, a hydrated lime processing business, received a US\$250,000 grant in FY 2005 to enable it to expand production and meet market demand, currently being met by imports. Funding support from ADF allowed Kelvin Shaun to construct new facilities, procure vehicles and equipment, and purchase inputs. Kelvin Shaun has subsequently secured a contract to supply an international construction company with 200 metric tons of hydrated lime valued at US\$259,500. The company's net income has increased 17 fold since ADF support commenced.

USADF is highly effective. Over the past five years, the Foundation has consistently exceeded its performance targets. After conducting an extensive assessment of our operations last year, OMB gave USADF its highest performance rating, which only 11 percent of all government agencies and only 5 percent of all investment-making programs receive. We are very proud of this achievement and are committed to building on our record of strong performance management. As a business ourselves, our goal is to model the kind of management practices that we expect from those we serve.

USADF is stretching appropriated dollars. Because of the Foundation's distinct approach and high impact, a dozen African governments and two private corporations are actually matching the U.S. government's funding, dollar-for-dollar. For example, the Government of Ghana is providing \$5.0 million annually in co-funding for the Foundation's program. Moreover, the agency stipulates that African enterprises that receive USADF support must contribute to a locally owned and directed venture capital fund. Thus, taxpayer funds invested in Africa can be used again and again to fund enterprises within the community and thus have a significant multiplier effect. Through these two mechanisms, USADF is effectively *more than doubling* the program impact of appropriations. No other agency operates on this basis. USADF has a total

of \$22.0 million in actual commitments and expressions of interest. However, at the current level of funding, USADF will leave \$11.5 million of this private co-funding on the table, because we do not have adequate appropriated funds to match the private contributions. (A list of the strategic partnerships is attached to this statement).

USADF is in high demand. The African Development Foundation is a vibrant program that both furthers U.S. foreign policy objectives in Africa and also supports Africa's own priorities. Because it is seen as highly effective and supporting local needs, African governments, businesses and communities are clamoring for USADF's investments; demand for its services greatly exceeds resources. For example, President Ellen Johnson-Sirleaf has requested USADF to help in rebuilding Liberia and restoring hope through creating small businesses and community enterprises that can provide meaningful jobs to ex-combatants, women and youth. (A copy of her official request is attached to this statement). USADF is already developing an initial round of investments to be funded this year, but it will need additional funding next year to expand that program. The Governments of Burundi and the Democratic Republic of the Congo have also requested USADF to assist in their post-crisis transition and development, but USADF does not currently have the funds to undertake other new country programs.

It is time for USADF to grow to its optimal potential. The Foundation's programs are high impact and in high demand. It has been externally judged – by our clients, the Administration and Congress alike – to be effective. USADF makes a unique and valuable contribution within the US's foreign assistance program.

What will it take to enable the United States African Development Foundation to increase its impact in Africa and deepen its contributions to U.S. objectives? I believe there are two critical components needed:

- 1) This is an important year for us. We have put in process a number of improvements, including stationing our former President, Nate Fields, in Ghana to oversee in a more hands-on way the service we are providing to the poor. But to have the capacity we need to answer all the demand we have, including being able to match \$11.5 million in contributions of African governments that are currently left on the table, we need adequate funding. Our Board of Directors has committed itself to this goal, and we will work with the Administration and Congress to achieve it. We would be exceedingly grateful for the support of this Committee's members.
- 2) Some technical updates to our authorizing statute. During our 25 years of operations, the context for our work has changed significantly but the legislation has never been revised. We believe several changes are now needed to better enable us to achieve our Congressional mandate, including:
 - Redesignating the agency the "United States African Development Foundation," to clearly identify the Foundation as a U.S. government agency.
 - Specifically including small enterprises and farmers associations as eligible recipients, recognizing that these are the engines for Africa's economic and social development.
 - Increasing the cap on grants from \$250,000 to \$400,000 to better meet the needs of African enterprises, smallholders and communities.
 - Revising a number of personnel provisions.

I am extremely grateful to Congresswoman Lee, Congressman Payne and Congressman Boozman for their support in general and their leadership in particular on shepherding this small but necessary bill through the House. All of the proposed revisions are straightforward, so I hope the Committee will be able to dispense with it as a form of technical corrections bill quickly. I would welcome the opportunity, Mr. Chairman, to meet with any members or their staff on the proposed revisions.

Mr. Chairman, thank you for the opportunity to appear before you today. And I thank you and your colleagues for your commitment to the poor of Africa. The work of the United States African Development Foundation is a powerful example of the goodwill of the American people, and I believe it is one of the most effective foreign assistance programs we have. I look forward to working with you in furthering the United States' interests in Africa.